

Message Text

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C O N F I D E N T I A L LIMA 3443

E.O. 11652: GDS
TAGS: EGEN EFIN PE
SUBJ: PERU'S FINANCIAL CRISIS: FOREIGN BANKS CUTTING SHORT TERM
CREDIT IN ABSENCE OF ECONOMIC MEASURES

REF: LIMA 3309

1. SUMMARY: PRIVATE BANKING COMMUNITY HERE REPORTS THAT THREE FOREIGN BANKS, TWO WEST GERMAN AND ONE U.S., HAVE CUT OFF SHORT TERM CREDIT LINES WITHIN RECENT DAYS. BANKERS FEAR THAT AS THESE DEFECTIONS BECOME KNOWN THEY COULD TRIGGER FURTHER SIMILAR ACTIONS BY OTHER FOREIGN BANKS, WHICH WOULD HAVE GRAVE RESULTS. HOPE AMONG BANKERS HERE IS THAT ECONOMIC PACKAGE MAY ALREADY HAVE BEEN APPROVED OR WILL BE APPROVED AT RUMORED "EXTRAORDINARY" MEETING OF COUNCIL OF MINISTERS REPORTEDLY PLANNED FOR APRIL 21-22. IN ABSENCE OF PROGRESS ON ECONOMIC FRONT, E.G. SUCCESSFUL COMPLETION OF IMF NEGOTIATIONS, BANKERS BELIEVE THAT LARGE-SCALE CANCELLATION OF CREDIT LINES IS INEVITABLE. IT IS GENERALLY UNDERSTOOD THAT CENTRAL BANK PRESIDENT DE LA MELENA IS NOW IN WASHINGTON LAYING GROUNDWORK FOR FINAL IMF APPROACH AND THAT MINISTER OF FINANCE WILL VISIT WASHINGTON WITHIN TWO WEEKS. WEEKLY MAGAZINE HAS LEAKED WHAT ARE REPORTEDLY SOME DETAILS OF DUISENBERG REPORT, WHICH IS SAID TO NOTE LACK OF CONFIDENCE, CRITICIZE GOP INABILITY FOR TIMELY
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DECISION-MAKING, AND TO URGE EARLY MOVES TOWARD AN UNDERSTANDING WITH THE IMF. MEANWHILE FINANCIAL COMMUNITY IS STILL ANXIOUSLY AWAITING ANY PUBLIC EVIDENCE THAT GOP HAS OVERCOME APPARENT INDECISIVENESS AND HAS REACHED CONSENSUS ON AUSTERITY MEASURES, WHICH MUST BE TAKEN SOON. END SUMMARY.

2. THE NEWS THAT DRESDNER BANK (A MEMBER OF THE INTERNATIONAL STEERING COMMITTEE), DEUTSCH-SUDAMERIKANISCHE BANK, AND UNION BANK OF LOS ANGELES HAVE ALL IN RECENT DAYS REQUESTED CORRESPONDENT BANKS IN PERU TO MAKE NO FURTHER REQUESTS TO USE OUTSTANDING SHORT TERM CREDIT LINES HAS COME AS A SEVERE SHOCK TO THE PRIVATE BANKING COMMUNITY IN LIMA. BANKERS FEAR THAT THESE ACTIONS, AS THEY INEVITABLY BECOME MORE WIDELY-KNOWN, COULD CREATE A FEELING OF PANIC IN THE BOARD ROOMS OF OTHER FOREIGN BANKS, AND COULD RESULT IN A LARGE-SCALE REDUCTION OF PERU'S SHORT-TERM CREDITS, WHICH ARE CURRENTLY ABOUT \$1.5-2 BILLION SPREAD OVER SOME 150-200 BANS AROUND THE WORLD. THE ALLEGED REASON FOR DRESDNER BANK'S DEFECTION IS DISATISFACTION WITH THE FAILURE OF THE GOP TO COME UP WITH THE PACKAGE OF ECONOMIC AUSTERITY MEASURES WHICH IT HAD PROMISED THE STEERING COMMITTEE WOULD BRING PERU BACK INTO THE GOOD GRACES OF THE IMF. SIMILAR CONCERNS WERE REPORTEDLY CITED BY THE OTHER TWO BANKS INVOLVED, BUT THE GREATEST IMPACT HAS BEEN FELT WITH THE DRESDNER BANK ACTION, AS IT HAS BEEN CONSIDERED A "TRADITIONAL FRIEND" BY MANY PERUVIAN BANKERS. WHETHER A SIGNIFICANT NUMBER OF FOREIGN BANKS FOLLOW THE DRESDNER BANK'S LEAD OVER THE NEXT WEEK OR SO PROBABLY DEPENDS TO A CRITICAL DEGREE ON WHETHER THE GOP CAN BREAK WITH ITS CURRENT IMAGE OF INDECISIVENESS AND CONFIDENTIAL

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NEAR-PARALYSIS AND COME UP WITH ECONOMIC MEASURES WHICH WILL MEET PERU'S STABILIZATION OBJECTIVES AND CONVINCE THE IMF AND THE FOREIGN BANKING COMMUNITY THAT THE MILITARY GOVERNMENT IS SERIOUS IN ITS DETERMINATION TO RESOLVE THE FINANCIAL CRISIS.

3. IN THIS REGARD, LIMA'S FAMOUS RUMOR MILL CONTINUES TO OPERATE AT A FRANTIC PACE. IT IS REPORTED, FOR EXAMPLE, THAT AFTER CONSIDERABLE STRUGGLE CONSENSUS HAS BEEN REACHED WITHIN THE GOP ON A NEW AUSTERITY PLAN, AND THAT THE OPERATIONAL ASPECTS OF THE PLAN (E.G. HOW THE PLAN IS TO BE "SOLD" TO THE PERUVIAN PEOPLE, SECURITY ASPECTS IN CASE OF DISTURBANCES, LABOR UNREST, ETC.) WILL BE DISCUSSED IN AN "EXTRAORDINARY SESSION" OF THE COUNCIL OF MINISTERS ON APRIL 21-22. (AN ALTERNATIVE RUMOR IS THAT THE FINAL DECISION ON THE PACKAGE WILL BE MADE BY THE COUNCIL AT THIS SESSION.) THIS PLAN WOULD THEN BE TAKEN TO THE IMF IN WASHINGTON BY MINISTER OF ECONOMY AND FINANCE SAENZ WITHIN THE NEXT WEEK OR TWO. GERMAN DE LA MELENA, WHO DID IN FACT ATTEND THE VANCOUVER IDB MEETING (REFTEL), IS WIDELY BELIEVED TO BE IN WASHINGTON

NOW PAVING THE WAY FOR THE SAENZ VISIT. MEANWHILE, THE WEEKLY MAGAZINE EQUIS-X CARRIED WHAT IT SAYS IS AN INSIDE LOOK AT THE DUISENBERG REPORT, INCLUDING A DESCRIPTION OF PERU'S "NATIONAL CRISIS" MARKED BY STAGFLATION, LACK OF CONFIDENCE, THE GOP'S INCAPACITY FOR MAKING TIMELY DECISIONS, AND A DENUNCIATION OF THE PRESENCE WITHIN THE MILITARY GOVERNMENT OF "SPECIAL PRIVILEGES" AND "ADMINISTRATIVE CORRUPTION". REPORT ALLEGEDLY RECOMMENDS COMING TO TERMS WITH THE IMF (THIS WOULD INVOLVE STRETCHING OUT THE STANDBY PERIOD AND ADOPTION OF NEW, MORE REALISTIC TARGETS), PRESENTATION TO THE PERUVIAN PEOPLE OF A SEVERELY AUSTERE PROGRAM WHICH WOULD APPLY TO EVERYONE, E.G. THE PETRO-PERU DEFICIT

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IS SEEN IN THE LIGHT OF FREE GASOLINE ALLOWANCES TO THE MILITARY. DUISENBERG REPORT ALSO ALLEGEDLY CALLS FOR IMPROVEMENT IN DECISION-MAKING PROCESS WITHIN GOP.

4. IN THIS AMBIENTE OF RUMORS AND UNCERTAINTY, PERUVIANS ARE ANXIOUSLY AWAITING SOME HARD EVIDENCE THAT THE GOP HAS OVERCOME ITS INDECISIVENESS AND IS PREPARED TO TAKE THE NEEDED AUSTERITY MEASURES. CERTAINLY WITHIN THE BANKING COMMUNITY THERE IS A GENERAL BELIEF THAT THE FAILURE TO DO SO WILL RESULT IN FURTHER LOSS OF CREDITS (AND CREDIBILITY) AND HAVE GRAVE CONSEQUENCES FOR THE ECONOMIC WELL-BEING OF THE COUNTRY.

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